2. Funding the SDGs and a Sustainable Future

The additional financing required to meet the SDGs by 2030, has grown to nearly US$100 trillion over the next decade, according to our estimates. Sustainability financing to date focuses overwhelmingly on environmental and climate issues, some argue rightly so given the threat that it poses to everything on the planet, whereas the funding needed for the human-related aspects of the SDGs has not attracted proportionate attention. Many would argue that this will destroy social cohesion and our common humanity. These clearly interconnected problems lead to the conclusion that funding the SDGs requires a far more integrative and radical approach.

Increasing commitments are being made to ESG and sustainability investments

2020 saw a surge in ESG and sustainability themed investing globally with total ESG-integrated assets under management exceeding US$35 trillion, growing more than 1.5 times since 2016\textsuperscript{44}, and expected to grow to US$50 trillion by 2025\textsuperscript{45}, supported by the emergence of green, social, and sustainability bonds as scaled asset classes in 2020, but more importantly by the old stock of investments falling away, and being replaced by a new stock that is built on ESG and sustainability criteria.

This is tangible progress demonstrating a shift in the norms of investing and is being seen by some as providing hope that the SDGs will get funded in the “natural” course of the sustainability megatrend that the 2020 Capital as a Force for Good report described.
A deeper look highlights two important considerations. Firstly, not all "ESG" or “sustainable investing” directly or materially contributes to funding the SDGs; most of it is focused on responsible investments in assets that do not harm the goals as opposed to those that address them proactively. And secondly, of those contributing to the goals, a disproportionate amount is focused on renewables and climate-related projects, rather than the broader set of SDGs, raising the specter of on-going social cohesion crises with social and political issues, from migration and lack of opportunity, that may derail the commitment to the climate crisis. A more integrated and transparent approach will help progress and allow the risks to be better understood.

**A simple, practical framework is required to enable the SDGs to be targeted, funded, and measured**

The idea of “sustainable development” balances environmental and climate concerns with human development requirements, however much of the recent surge in funding has been focused on climate change and in economically advanced countries which have comparatively fewer acute human development needs. However, addressing climate-related goals is not possible without providing economic and energy security for developing countries, and hence funding the goals requires an integrated approach which looks at the human, social, and environmental goals, and their financing holistically.

Given the complex inter-linkages between the 17 SDGs, and the need to achieve them in tandem, how should the finance industry together with other stakeholders, used to approaching these issues in silos, think about financing the goals?

The “climate” theme provides an important lesson for the other SDGs which lack the focus and funding. It has been presented in its entirety as one idea, and now 70% of the population in the developed world accepts its compelling nature. It is unlikely that 17 SDGs will be able to be held in
the mind of the world in the same impactful manner, without which they will not capture the attention of the individual or the financiers.

In examining the activities of the leading financial institutions, a simple and practical approach applied to the 17 goals results in the four interrelated, interconnected, and interdependent categories with one important enabling category:

i. **People.** Addressing basic human needs

ii. **Planet.** Saving the planet

iii. **Physical and Virtual Infrastructure.** Enabling human activity

iv. **Prosperity.** Creating shared prosperity

v. **Peace and Partnership.** Delivering peace and partnerships

The diagram below illustrates the SDGs that fall into each of these categories and examples of the key financing needs in each of the categories.

**Figure 3 - A Simple Framework for Financing the 2030 Global Sustainability Agenda**

<table>
<thead>
<tr>
<th>Category</th>
<th>Relevant SDGs</th>
<th>Key Financing Needs, Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>People</td>
<td>2 Zero Hunger</td>
<td>Access to high quality healthcare and education in poorer countries</td>
</tr>
<tr>
<td></td>
<td>3 Good Health and Well-being</td>
<td>Coronavirus relief measures</td>
</tr>
<tr>
<td></td>
<td>4 Quality Education</td>
<td>Ending world hunger</td>
</tr>
<tr>
<td>Planet</td>
<td>12 Responsible Consumption and Production</td>
<td>Global energy transition and net zero commitments</td>
</tr>
<tr>
<td></td>
<td>13 Climate Action</td>
<td>Stopping biodiversity loss (in water and on land)</td>
</tr>
<tr>
<td>Physical &amp; Virtual</td>
<td>6 Clean Water and Sanitation</td>
<td>Investments in roads, electricity network, clean water and sanitation</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>7 Affordable and Clean Energy</td>
<td>Providing affordable housing for all</td>
</tr>
<tr>
<td></td>
<td>9 Industry Innovation and Infrastructure</td>
<td>Investments in broadband networks</td>
</tr>
<tr>
<td>Prosperity</td>
<td>1 No Poverty</td>
<td>Common standards for measuring and reporting impact outcomes</td>
</tr>
<tr>
<td></td>
<td>5 Gender Equality</td>
<td>Strong governance with improved institutional capacity</td>
</tr>
<tr>
<td>Peace &amp; Partnership</td>
<td>16 Peace, Justice, Strong Institutions</td>
<td></td>
</tr>
<tr>
<td></td>
<td>17 Partnerships for the Goals</td>
<td></td>
</tr>
</tbody>
</table>

**Revised Assessment of the Funding Need for Meeting the SDGs**

Headline estimates of the cost of meeting the SDGs have ranged widely, but importantly, all the estimates suggest a significant gap vs. current funding, and this gap appears to have gotten bigger because of the pandemic. These estimates have evolved since the SDGs were introduced as follows:

- **2014, Total Funding Requirement Estimated at US$5-US$7 trillion, with US$2.5 trillion Shortfall.**
  In 2014, as the SDGs were being formulated by various stakeholders, UNCTAD estimated a
total financing requirement of US$5-US$7 trillion annually between 2015 and 2030 to meet the SDGs, of which US$3.3-US$4.5 trillion was estimated to be required in developing countries and US$1.7-US$2.5 trillion in developed countries. This estimate calculated an annual funding shortfall of US$2.5 trillion for the SDGs in developing countries. A wider set of important SDG-related items, including financial inclusion, social security, biodiversity, operating expenditure for health and education, and the subsequent higher cost of climate change estimated as part of the Paris Agreement in 2015 were not included in this original estimate.

- **2019, Revised Shortfall Estimate of US$2.6 trillion, partial coverage of SDGs.** In 2019, the IMF provided an updated estimate for the funding shortfall in developing countries, at c.US$2.6 trillion annually, consisting of c.US$2.1 trillion for lower middle-income countries and US$0.5 trillion for low income developing countries. This estimate covered only a portion of the SDGs, focusing on those related to human, social and physical infrastructure. The calculations did not include cost estimates for telecommunication, food security and agriculture, or climate change and mitigation, and is therefore difficult to compare directly to the initial estimates prepared by UNCTAD. However, holding up the calculated shortfall of US$2.6 trillion for only a subset of the SDGs, against the previous shortfall US$2.5 trillion for all the SDGs indicates a potentially significant increase in the gap in the intervening period.

- **2020, Revised Shortfall Estimate of US$4.2 trillion, partial coverage of SDGs.** In 2020, the OECD updated the 2019 IMF shortfall estimates, considering the impact of the unfolding coronavirus pandemic and estimating that the annual funding gap in developing countries had grown from an estimated US$2.5 trillion to US$4.2 trillion annually due to the reduction in SDG spending (from declining external financing for developing countries of c.US$0.7 trillion) and the increasing cost burden created by the coronavirus (measured as the gap in public spending for coronavirus recovery measures vs. the advanced economies of c.US$1.0 trillion). This calculation was incremental to the 2019 IMF analysis and was based on the same core assumptions.

Stepping back, the various estimates produced to date now need to be updated to avoid underestimating the challenge of funding the SDGs in total, and the current funding gap. The estimates need to address the following:

1. **Bring Up to Date.** The earlier estimates are now out of date, predating the Paris Climate Agreement, the subsequent successes and failures in the measures taken, and more fully incorporating the implication of the coronavirus pandemic, in particular.

2. **Include Broader and More Comprehensive Factors.** The estimates need to be based on a more comprehensive set of variables related to the 17 SDGs, in particular for climate change and mass inclusion, for which previous estimates have focused largely on the costs of public goods like infrastructure while not including certain key measures that drive individual prosperity and financial inclusion (such as MSME financing and microfinancing, social security, and affordable housing).

3. **Inflation Considerations.** Prior estimates have been made at that time's constant prices and need to account for the cost of inflation.
An accurate up to date calculation of the cost of the SDGs needs to address these shortcomings with comprehensive and current estimates for each of the spending categories. The true cost of fully funding the SDGs in the next decade is therefore significantly higher, and the gap to funding the SDGs is far greater, than the current estimates imply.

### Quantifying the Real Cost of Funding the SDGs

An updated estimate of the current funding gaps across four of the SDG categories outlined above, People, Planet, Physical and Virtual Infrastructure and Prosperity, are illustrated below. Consistent with previous SDG funding estimates, Peace and Partnership, are crucial to the SDGs overall success, and are not included in the financing estimates below, but are recognized as requiring policy and strategic commitment. While governments and policy makers play the leading role in addressing peace and facilitating partnership, their success or failure (from a financier’s perspective) results in financiers supporting or withholding investments in states that do not meet their criteria.

#### Figure 4 - The Cost of Addressing Basic Human Needs

![Figure 4 - The Cost of Addressing Basic Human Needs](image-url)
Figure 5 - The Cost of Saving the Planet

![Diagram showing the cost of saving the planet](image1)

Sources: ETC, UN Convention on Biodiversity, See Appendix for details

Figure 6 - The Cost of Building Physical and Virtual Infrastructure

![Diagram showing the cost of building physical and virtual infrastructure](image2)

Sources: IMF, McKinsey, World Bank, UNCTAD, See Appendix for details
Based on the above, (and after including the US$700 billion drop in annual financing estimated by the OECD) the total gap in developing countries to fully fund the SDGs is estimated at c.US$8.4-US$10.1 trillion per annum between now and 2030. On an annualized basis, this funding gap is equal to 9-11% of est. 2021 global GDP (recognizing that GDP is a flawed indicator of economic activity, for example excluding non-market transactions and informal economic activity).

Current annual spending on the SDGs across developed and developing countries is estimated at c.US$3.2-US$4.2 trillion (consisting of c.US$1.1 trillion in developing countries and US$2.1-US$3.1tn in developed countries)\(^{17}\).

Adding current spending to the gap results in an estimated total funding need for the SDGs of US$11.6-US$14.2 trillion.

This analysis implies that global spending on the SDGs will need to more than triple from their current levels for the goals to be fully funded.
Clearly, there may be opportunities to find synergies between areas and frugal innovations, reducing the complexity and cost of goods and services and their production. These could be further developed, and deployed at scale, which would reduce the total cost. On the other side, the cost of developed country funding may also drive the numbers higher. However, the key conclusion from the analysis above is that the cost to fund the SDGs is significantly larger than existing estimates, with similar amounts of capital being required to meet each of the four broad SDG groups of addressing basic human needs, saving the environment, building infrastructure, and creating shared prosperity.

It is important to note that these are the funding requirements to an agreed target date of 2030, and that the need to invest in people, planet, prosperity, and physical and virtual infrastructure, as well as peace and partnerships is essentially a perpetual one. For example, one of the on-going costs, climate change, is estimated to require additional investments in excess of US$80 trillion between 2030-2050 to fund the global transition to net zero. The other categories may well require funding of similar magnitudes over this period to underwrite a stable transition to a more sustainable future.

The SDG targets are at risk, the approach and funding solutions need rethinking

Given the size of the current gap laid out above, it is increasingly clear that the world is not currently on track to fund the SDGs. This is due not only to the absolute quantum of capital that is required but also due to challenges of funding sustainability and related goals more generally.
Given the geographic focus of the SDGs in developing countries and their thematic emphasis on issues normally funded by governments, official development assistance (ODA) has been an essential public policy and funding source for the achievement of the goals to date, particularly in the least developed economies which lack financing capacity and mechanisms of their own. The logic has moved from funding developing countries as part of the Cold War to a shared agenda for widely accepted goals like sustainable development and inclusion, among others, sponsored by the UN. This approach has been adopted by national aid agencies as well as MDBs like the World Bank.

However, while the SDGs clearly provide an agreed basis for cooperative action, the scale of the funding requirement is so large that existing pools of development finance can barely scratch the surface of what is required. Funding the SDGs will therefore require new models of financing, ones that unlock unprecedented amounts of private capital with new roles for sovereign investors and development institutions. It may also require more systemic measures, such as the accurate and consistent pricing of externalities, which would impact the financial system itself, as well.

The gap to fully funding the SDGs is both large and growing. Despite estimates having been revised upwards several times, the true gap to funding the SDGs, including critical climate and inclusion spending, is likely twice as high as current estimates indicate. Given that the current funding gap is equal to a significant portion of global output, a multi-stakeholder effort will likely be required to close this gap, requiring the support and coordination of the largest pools of capital in the world.